

CITY OF CHEROKEE
INDEPENDENT AUDITORS' REPORTS
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

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CITY OF CHEROKEE
OFFICIALS

<u>NAME</u>	<u>TITLE</u> (Before January 2008)	<u>TERM EXPIRES</u>
Dennis Henrich	Mayor	January 2010
Dwight Varce	Council Member, Mayor Pro-Tem	January 2008
Bob Leach	Council Member	January 2010
Greg Stieneke	Council Member	January 2008
Jim Peck	Council Member	January 2008
Mick Mallory	Council Member	January 2010
Debra Taylor	City Clerk/Treasurer	Indefinite
M.W. Miller, Jr.	Attorney	Indefinite
(After January 2008)		
Dennis Henrich (Resigned May 2008)	Mayor	January 2010
Bob Leach	Council Member, Mayor Pro-Tem	January 2010
Linda Burkhart	Council Member	January 2012
Greg Stieneke	Council Member	January 2012
Jim Peck	Council Member	January 2012
Mick Mallory	Council Member	January 2010
Debra Taylor	City Clerk/Treasurer	Indefinite
M.W. Miller, Jr.	Attorney	Indefinite

WINTHER, STAVE & CO., LLP
Certified Public Accountants

1316 West 18th Street
P.O. Box 175
Spencer, Iowa 51301-0175
Phone 712-262-3117
FAX 712-262-3159

1004 21st Street #4
P.O. Box 187
Milford, Iowa 51351
Phone 712-338-2488
FAX 712-338-2510

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Cherokee
Cherokee, IA 51012

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the primary government of the City of Cherokee, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of City of Cherokee's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements do not include financial data for the City's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the component unit required to be discretely presented totaling \$83,234, \$-0-, \$83,234, \$366,868, and \$356,532, respectively, have not been reported.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity

with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component unit of the City of Cherokee, Iowa, as of June 30, 2008, or the changes in financial position thereof for the year then ended.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, and each major fund for the primary government of the City of Cherokee at June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2009 on our consideration of the City of Cherokee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 20 through 22 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the primary government of the City of Cherokee. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "Wintner, Steve".

February 9, 2009

BASIC FINANCIAL STATEMENTS

CITY OF CHEROKEE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

		Program Receipts		
		Charges for	Operating	Capital
	<u>Disbursements</u>	<u>Service</u>	<u>Grants and</u> <u>Contributions</u>	<u>Grants and</u> <u>Contributions</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$ 870,531	\$ 45,476	\$ 16,600	
Public works	712,926	10,961	459,977	
Culture and recreation	1,345,196	149,389	79,084	
Community and economic development	12,361			
General government	162,855			
Debt service	1,283,427			\$ 36,770
Capital projects	139,788			
Total governmental activities	<u>4,527,084</u>	<u>205,826</u>	<u>555,661</u>	<u>36,770</u>
Business-type activities:				
Water	927,750	800,549		
Sewer	1,007,887	1,128,025		
Landfill	165,298	142,096		
Solid waste	210,773	210,942		
Storm water	266,454	80,717		
Total business-type activities	<u>2,578,162</u>	<u>2,362,329</u>		
TOTAL	<u>\$7,105,246</u>	<u>\$2,568,155</u>	<u>\$ 555,661</u>	<u>\$ 36,770</u>
General Receipts:				
Property taxes levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Hotel/motel tax				
Grants and contributions not restricted to specific purpose				
Unrestricted investment interest ...				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets - beginning of year				
Cash basis net assets - end of year				
Cash basis net assets:				
Restricted:				
Debt service				
Road use				
Employee benefits				
Other purposes				
Unrestricted				
Total cash basis net assets				

See Notes to Financial Statements

Exhibit A

Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (808,455)		\$ (808,455)
(241,988)		(241,988)
(1,116,723)		(1,116,723)
(12,361)		(12,361)
(162,855)		(162,855)
(1,246,657)		(1,246,657)
(139,788)		(139,788)
<u>(3,728,827)</u>		<u>(3,728,827)</u>
	\$ (127,201)	(127,201)
	120,138	120,138
	(23,202)	(23,202)
	169	169
	<u>(185,737)</u>	<u>(185,737)</u>
<u>(3,728,827)</u>	<u>(215,833)</u>	<u>(215,833)</u>
<u>(3,728,827)</u>	<u>(215,833)</u>	<u>(3,944,660)</u>
1,316,818		1,316,818
202,182		202,182
324,697		324,697
478,585		478,585
86,133		86,133
5,553		5,553
132,896	52,402	185,298
566,538	110	566,648
<u>(57,798)</u>	<u>57,798</u>	
<u>3,055,604</u>	<u>110,310</u>	<u>3,165,914</u>
(673,223)	(105,523)	(778,746)
<u>2,642,859</u>	<u>1,007,054</u>	<u>3,649,913</u>
<u>\$1,969,636</u>	<u>\$ 901,531</u>	<u>\$2,871,167</u>
\$ 60,644	\$ 341,455	\$ 402,099
207,190		207,190
12,945		12,945
1,571,399		1,571,399
<u>117,458</u>	<u>560,076</u>	<u>677,534</u>
<u>\$1,969,636</u>	<u>\$ 901,531</u>	<u>\$2,871,167</u>

See Notes to Financial Statements

CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Special Revenue</u>	
		<u>Road</u>	<u>Employee</u>
		<u>Use</u>	<u>Benefits</u>
RECEIPTS:			
Property tax	\$ 891,222		\$ 398,598
Tax increment financing			
Other city tax			
Licenses and permits	28,364		
Use of money and property	66,632		1,054
Intergovernmental	28,610	\$ 459,977	
Charges for service	171,005		
Special assessments			
Miscellaneous	141,412	54,489	85,507
TOTAL RECEIPTS	<u>1,327,245</u>	<u>514,466</u>	<u>485,159</u>
DISBURSEMENTS:			
Operating:			
Public safety	606,646		263,885
Public works		590,578	83,464
Culture and recreation	586,868		105,760
Community and economic development	280		
General government	187,619		41,737
Debt service			
Capital projects			
TOTAL DISBURSEMENTS	<u>1,381,413</u>	<u>590,578</u>	<u>494,846</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(54,168)</u>	<u>(76,112)</u>	<u>(9,687)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	16,872		
Operating transfers out	(2,480)	(35,000)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>14,392</u>	<u>(35,000)</u>	
NET CHANGE IN CASH BALANCES	(39,776)	(111,112)	(9,687)
CASH BALANCES - BEGINNING OF YEAR	<u>157,234</u>	<u>318,302</u>	<u>22,632</u>
CASH BALANCES - END OF YEAR	<u>\$ 117,458</u>	<u>\$ 207,190</u>	<u>\$ 12,945</u>
CASH BASIS FUND BALANCES:			
Reserved for debt service			
Unreserved:			
General fund	\$ 117,458		
Special revenue funds		\$ 207,190	\$ 12,945
Capital projects fund			
Permanent fund			
TOTAL CASH BASIS FUND BALANCE	<u>\$ 117,458</u>	<u>\$ 207,190</u>	<u>\$ 12,945</u>

See Notes to Financial Statements

Exhibit B

<u>Capital Projects</u>			
<u>Aquatic Center</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
	\$ 324,697	\$ 26,998	\$1,641,515
		202,182	202,182
		564,718	564,718
			28,364
\$ 27,350	9,289	28,571	132,896
74,100		4,984	567,671
			171,005
	36,770		36,770
<u>339,382</u>	<u>7,901</u>	<u>51,082</u>	<u>679,773</u>
<u>440,832</u>	<u>378,657</u>	<u>878,535</u>	<u>4,024,894</u>
			870,531
		87,455	761,497
525,031		127,537	1,345,196
		12,081	12,361
		1,285	230,641
232,500	1,050,927		1,283,427
		<u>139,788</u>	<u>139,788</u>
<u>757,531</u>	<u>1,050,927</u>	<u>368,146</u>	<u>4,643,441</u>
<u>(316,699)</u>	<u>(672,270)</u>	<u>510,389</u>	<u>(618,547)</u>
20,000	559,570	64,478	660,920
		(681,238)	(718,718)
<u>20,000</u>	<u>559,570</u>	<u>(616,760)</u>	<u>(57,798)</u>
(296,699)	(112,700)	(106,371)	(676,345)
<u>940,912</u>	<u>173,344</u>	<u>922,806</u>	<u>2,535,230</u>
<u>\$ 644,213</u>	<u>\$ 60,644</u>	<u>\$ 816,435</u>	<u>\$1,858,885</u>
	\$ 60,644		\$ 60,644
			117,458
\$ 644,213		\$ 718,719	938,854
		(49,270)	594,943
		<u>146,986</u>	<u>146,986</u>
<u>\$ 644,213</u>	<u>\$ 60,644</u>	<u>\$ 816,435</u>	<u>\$1,858,885</u>

See Notes to Financial Statements

CITY OF CHEROKEE
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

TOTAL GOVERNMENTAL FUNDS CASH BALANCES (Page 7)	\$1,858,885
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Amounts reported for governmental activities in the Statement of Activities and
 Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	110,751
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CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES (Page 5)	\$1,969,636
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NET CHANGE IN CASH BALANCES (Page 7)	\$ (676,345)
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Amounts reported for governmental activities in the Statement of Activities and Net
 Assets are different because:

The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.	3,122
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CHANGE IN CASH BALANCE OF GOVERNMENTAL ACTIVITIES (Page 5)	\$ (673,223)
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CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Enterprise Funds				Internal Service Fund Building Replacement
	Water	Sewer	Nonmajor	Total	
OPERATING RECEIPTS:					
Charges for service	\$862,204	\$1,237,845	\$433,755	\$2,533,804	
Use of money and property	29,115	16,526	6,761	52,402	\$ 3,742
Miscellaneous		10	100	110	1,914
TOTAL OPERATING RECEIPTS	<u>891,319</u>	<u>1,254,381</u>	<u>440,616</u>	<u>2,586,316</u>	<u>5,656</u>
OPERATING DISBURSEMENTS:					
Business-type activities	<u>786,877</u>	<u>724,193</u>	<u>642,525</u>	<u>2,153,595</u>	<u>2,534</u>
TOTAL OPERATING DISBURSEMENTS	<u>786,877</u>	<u>724,193</u>	<u>642,525</u>	<u>2,153,595</u>	<u>2,534</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>104,442</u>	<u>530,188</u>	<u>(201,909)</u>	<u>432,721</u>	<u>3,122</u>
NONOPERATING RECEIPTS (DISBURSEMENTS):					
Debt service	<u>(202,528)</u>	<u>(393,514)</u>		<u>(596,042)</u>	
TOTAL NONOPERATING RECEIPTS (DISBURSEMENTS)	<u>(202,528)</u>	<u>(393,514)</u>		<u>(596,042)</u>	
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(98,086)</u>	<u>136,674</u>	<u>(201,909)</u>	<u>(163,321)</u>	<u>3,122</u>
Transfers - net	<u>(1,729)</u>	<u>41,145</u>	<u>18,382</u>	<u>57,798</u>	
NET CHANGE IN CASH BALANCES	<u>(99,815)</u>	<u>177,819</u>	<u>(183,527)</u>	<u>(105,523)</u>	<u>3,122</u>
CASH BALANCES - BEGINNING OF YEAR	<u>755,216</u>	<u>44,079</u>	<u>207,759</u>	<u>1,007,054</u>	<u>107,629</u>
CASH BALANCES - END OF YEAR	<u>\$655,401</u>	<u>\$ 221,898</u>	<u>\$ 24,232</u>	<u>\$ 901,531</u>	<u>\$110,751</u>
CASH BASIS FUND BALANCES:					
Reserved for debt service	\$299,628	\$ 41,827		\$ 341,455	
Unreserved	<u>355,773</u>	<u>180,071</u>	<u>\$ 24,232</u>	<u>560,076</u>	<u>\$110,751</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$655,401</u>	<u>\$ 221,898</u>	<u>\$ 24,232</u>	<u>\$ 901,531</u>	<u>\$110,751</u>

CITY OF CHEROKEE
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCE
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2008

	Agency Fund Cherokee Aviation <u>Authority</u>
CASH BALANCE - BEGINNING OF YEAR	\$ _____
RECEIPTS:	
Property tax	14,999
Miscellaneous	<u>3,352</u>
TOTAL RECEIPTS	<u>18,351</u>
DISBURSEMENTS:	
To other governments	<u>18,351</u>
CASH BALANCE - END OF YEAR	<u>\$ _____</u>

NOTES TO FINANCIAL STATEMENTS

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Cherokee, Iowa is a political subdivision of the State of Iowa located in Cherokee County. It was first incorporated in 1856 and operates under the Home Rule provisions of the Constitution of Iowa and under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides various utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City is considered a primary government and has excluded the financial data of its component unit, Cherokee Community Foundation. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. A component unit is a legally separate entity for which the City is financially accountable. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. Since these financial statements do not include the City's component unit, they do not purport to be prepared in conformity with U.S. generally accepted accounting principles as they relate to the exclusion of this component unit.

Cherokee Community Foundation (Foundation) is considered a component unit of the City of Cherokee. Financial statements of the Foundation are not separately prepared. The Foundation provides fundraising activities to benefit programs and projects of the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Cherokee County Joint E911 Service Board, Cherokee County Assessor's Conference Board, Cherokee County Solid Waste Commission, and Cherokee Aviation Authority. Financial transactions of these organizations are included in the City's financial statements only to the extent of the City's fiduciary relationship with the organization and, as such, are reported as an Agency fund of the City.

B. Basis of Presentation

Government-Wide Financial Statements - The statement of activities and net assets reports information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities and net assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The statement of activities and net assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are separately aggregated and reported as nonmajor governmental and proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for the benefits provided employees which are financed by property taxes.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation debt.

The Capital Projects Fund - Aquatic Center is used to account for all resources used in the acquisition and construction of the Aquatic Center.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's sewer system.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for financing the replacement of damaged property not covered by insurance coverage.

C. Measurement Focus and Basis of Accounting

The City of Cherokee maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the community and economic development, and debt service functions.

2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-ended management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

2. CASH AND POOLED INVESTMENTS - Continued

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City did not have investments subject to risk categorization at June 30, 2008.

3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation notes and revenue notes and bonds are as follows:

Year Ending June 30,	<u>General Obligation Notes</u>		<u>Revenue Notes/Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 833,000	\$219,745	\$ 623,000	\$ 241,458	\$ 1,456,000	\$ 461,203
2010	841,000	188,535	741,000	214,090	1,582,000	402,625
2011	863,000	155,525	755,000	180,744	1,618,000	336,269
2012	910,000	121,165	763,000	146,826	1,673,000	267,991
2013	660,000	82,473	273,000	112,620	933,000	195,093
2014 - 2018	1,175,000	100,824	1,518,000	412,186	2,693,000	513,010
2019 - 2023			<u>1,471,000</u>	<u>132,306</u>	<u>1,471,000</u>	<u>132,306</u>
Total	<u>\$5,282,000</u>	<u>\$868,267</u>	<u>\$6,144,000</u>	<u>\$1,440,230</u>	<u>\$11,426,000</u>	<u>\$2,308,497</u>

The Code of Iowa requires that principal and interest on general obligation notes be paid from the Debt Service Fund.

Revenue Notes/Bonds

The City has pledged future aquatic center pledge receipts to repay \$1,650,000 in aquatic center revenue bonds issued in February 2007. Proceeds from the bonds provided financing for construction of a new aquatic center. The bonds are payable solely from aquatic center pledge receipts and are payable through 2012. Annual principal and interest payments on the bonds are expected to require 100% percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,715,000. For the current year, principal and interest paid and total pledge receipts were \$232,500 and \$339,382, respectively.

The City has pledged future water customer receipts net of specified operating disbursements to repay \$1,330,000 in water revenue bonds issued in April 2002. Proceeds from the bonds were used to refinance outstanding bonds for a 1994 water plant and mains project. The bonds are payable solely from water customer net receipts and are payable through 2010. Annual principal and interest payments on the bonds are expected to require less than 79% percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$408,560. For the current year, principal and interest paid, charges for services, and total customer net receipts were \$202,528, \$862,204, and \$104,442, respectively.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

3. BONDS AND NOTES PAYABLE - Continued

The City has pledged future sewer customer receipts net of specified operating disbursements to repay \$4,494,000 in sewer revenue bonds issued in 1999 and 2002. Proceeds from the bonds provided financing for sewer system improvements. The bonds are payable solely from sewer customer net receipts and are payable through 2023. Annual principal and interest payments on the bonds are expected to require less than 73% percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$5,460,670. For the current year, principal and interest paid and total customer net receipts were \$385,668 and \$530,188, respectively.

The resolutions providing for the issuance of water and sewer revenue notes include the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders retain a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c. Additional monthly transfers to the water reserve account shall be made until specific minimum balances have been accumulated. The water reserve account, which exceeds its minimum balance requirement, is restricted for the purpose of paying principal at maturity or interest on the water revenue notes if sufficient money is not available in the Sinking Fund.
- d. All funds remaining in the city water account after the payment of all maintenance and operating expenses and required transfers shall be placed in a water revenue improvement fund at a minimum rate of \$5,000 per month until a minimum of \$200,000 is accumulated. This account is restricted for the purpose of paying for any improvement, extension, or repair to the system or for note and interest payments which the other accounts might be unable to make.

At June 30, 2008, the balances of these special funds included in the respective utility fund balance are as follows.

	<u>Water</u>	<u>Sewer</u>
Bond and interest sinking	\$ 42,360	\$ 41,827
Bond reserve	206,816	
Improvement	<u>50,452</u>	<u> </u>
 TOTAL	 <u>\$299,628</u>	 <u>\$ 41,827</u>

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$84,059, \$79,967, and \$80,928, respectively, equal to the required contributions for each year.

5. COMPENSATED ABSENCES

City employees meeting established criteria accumulate a limited amount of earned but unused vacation, compensatory time, and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time, and sick leave termination payments payable to employees at June 30, 2008, primarily relating to the General Fund, is \$193,546.

The liability for compensated absences has been computed based on rates of pay as of June 30, 2008.

6. LANDFILL CONTRACT

The solid waste disposal contract, which continues indefinitely, requires total annual payments of \$138,678 by the City. This amount is attributed to the City's 1990 census as it relates in total to the county.

7. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Parks & Recreation Capital Improvement	General	\$ 2,480
Airport	Capital Projects	18,382
Debt Service	Special Revenue: Local Option Sales Tax	300,000
	Special Revenue: Urban Renewal TIF	229,445
	Capital Projects	30,125

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

7. INTERFUND TRANSFERS - Continued

Capital Projects	Special Revenue: Road Use	\$ 35,000
	Special Revenue: Emergency	26,998
Capital Projects - Aquatic Center	Special Revenue: Hotel/motel tax	20,000
Sewer	Special Revenue: Urban Renewal TIF	56,288
General	Water	1,729
	Sewer	<u>15,143</u>
Total		<u>\$735,590</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

8. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials and employees, totaling \$1,000 during the year ended June 30, 2008.

9. RISK MANAGEMENT

The City of Cherokee is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 563 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

9. RISK MANAGEMENT - Continued

The City of Cherokee's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Cherokee's annual contributions to the Pool for the year ended June 30, 2008 were \$108,000.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2008, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its capital contributions; however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City of Cherokee also carries commercial insurance purchased from other insurers for coverage associated with commercial property, workers' compensation, lift station in flood area, and hangerkeeper's liability. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

10. LOANS RECEIVABLE

At June 30, 2008, the City had the following outstanding balances on loans made from the Revolving Loan Fund as an effort to promote economic development and promote and retain jobs within the City:

American Natural Soy - \$21,956 loan on December 9, 2003, payable in 10 annual payments of \$2,442.64, including interest at 2%.	\$ 13,674
Headlines - \$10,000 loan on May 1, 2008, payable in 120 monthly payments of \$111.02, including interest at 6%.	<u>9,878</u>
TOTAL	<u>\$ 23,552</u>

11. DEFICIT FUND BALANCES

The following funds had a deficit balance at June 30, 2008:

<u>Fund</u>	<u>Deficit Balance June 30, 2008</u>	<u>Cause of Deficit</u>	<u>Plans to Eliminate Deficit</u>
Proprietary:			
Landfill	\$ (30,238)	Increase in expenditures	Reduce spending
Solid Waste	(3,619)	Increase in expenditures	Reduce spending
Capital Projects	(49,270)	Increase in expenditures	Reduce spending
Hotel/Motel	(11,831)	Increase in expenditures	Reduce spending

12. LITIGATION

The City is party to routine legal proceedings and litigation arising in the normal course of business. In the opinion of management, the outcome of such actions will have no material impact on the City's financial condition.

13. COMMITMENT

At June 30, 2008, the City had construction contracts for the community center and infrastructure projects totaling approximately \$481,807 of which approximately \$297,933 remained outstanding. Subsequent to June 30, 2008, the City entered into additional construction contracts totaling \$119,000.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CHEROKEE
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted
RECEIPTS:			
Property tax	\$1,641,515		
Tax increment financing collections	202,182		
Other city taxes	564,718		
Licenses and permits	28,364		
Use of money and property	132,896	\$ 56,144	
Intergovernmental	567,671		
Charges for service	171,005	2,533,804	\$ 171,475
Special assessments	36,770		
Miscellaneous	679,773	2,024	113,235
TOTAL RECEIPTS	<u>4,024,894</u>	<u>2,591,972</u>	<u>284,710</u>
DISBURSEMENTS:			
Public safety	870,531		
Public works	761,497		42,327
Culture and recreation	1,345,196		
Community and economic development	12,361		
General government	230,641		67,786
Debt service	1,283,427		
Capital projects	139,788		
Business-type activities		2,752,171	171,475
TOTAL DISBURSEMENTS	<u>4,643,441</u>	<u>2,752,171</u>	<u>281,588</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(618,547)	(160,199)	3,122
OTHER FINANCING SOURCES - NET	<u>(57,798)</u>	<u>57,798</u>	
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	(676,345)	(102,401)	3,122
BALANCES - BEGINNING OF YEAR	<u>2,535,230</u>	<u>1,114,683</u>	<u>(1,538,787)</u>
BALANCES - END OF YEAR	<u>\$1,858,885</u>	<u>\$1,012,282</u>	<u>\$(1,535,665)</u>

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$1,641,515	\$1,618,310	\$1,618,310	\$ 23,205
202,182	234,679	234,679	(32,497)
564,718	521,016	578,911	(14,193)
28,364	16,300	16,300	12,064
189,040	131,450	131,450	57,590
567,671	478,744	566,944	727
2,533,334	2,243,945	2,351,750	181,584
36,770	41,500	41,500	(4,730)
<u>568,562</u>	<u>924,290</u>	<u>1,042,235</u>	<u>(473,673)</u>
<u>6,332,156</u>	<u>6,210,234</u>	<u>6,582,079</u>	<u>(249,923)</u>
870,531	883,297	900,947	30,416
719,170	669,119	756,319	37,149
1,345,196	830,512	1,352,148	6,952
12,361	35	10,035	(2,326)
162,855	212,243	228,878	66,023
1,283,427	1,048,928	1,048,928	(234,499)
139,788	263,225	263,225	123,437
<u>2,580,696</u>	<u>2,374,632</u>	<u>2,745,700</u>	<u>165,004</u>
<u>7,114,024</u>	<u>6,281,991</u>	<u>7,306,180</u>	<u>192,156</u>
(781,868)	(71,757)	(724,101)	(57,767)
<u> </u>	<u> </u>	<u>515,000</u>	<u>(515,000)</u>
(781,868)	<u>\$ (71,757)</u>	<u>\$ (209,101)</u>	<u>\$ (572,767)</u>
<u>5,188,700</u>			
<u>\$4,406,832</u>			

CITY OF CHEROKEE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except internal service funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities and non-program. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,024,189. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the following functions: community and economic development and debt service.

OTHER SUPPLEMENTARY INFORMATION

CITY OF CHEROKEE
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Capital Projects	Emergency	Local Option Sales Tax	Hotel/ Motel
RECEIPTS:				
Property tax		\$ 26,998		
Tax increment financing				
Other city tax			\$478,585	\$ 86,133
Use of money and property	\$ 1,558		15,749	525
Intergovernmental				
Miscellaneous	17,870			600
TOTAL RECEIPTS	<u>19,428</u>	<u>26,998</u>	<u>494,334</u>	<u>87,258</u>
DISBURSEMENTS:				
Operating:				
Public works	87,455			
Culture and recreation				96,637
Community and economic development	2,081			
General government			1,285	
Capital projects	139,788			
TOTAL DISBURSEMENTS	<u>229,324</u>		<u>1,285</u>	<u>96,637</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(209,896)</u>	<u>26,998</u>	<u>493,049</u>	<u>(9,379)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	61,998			
Operating transfers out	(48,507)	(26,998)	(300,000)	(20,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>13,491</u>	<u>(26,998)</u>	<u>(300,000)</u>	<u>(20,000)</u>
NET CHANGE IN CASH BALANCES	(196,405)		193,049	(29,379)
CASH BALANCES - BEGINNING OF YEAR	<u>147,135</u>		<u>355,086</u>	<u>17,548</u>
CASH BALANCES - END OF YEAR	<u>\$ (49,270)</u>	<u>\$</u>	<u>\$548,135</u>	<u>\$ (11,831)</u>
CASH BASIS FUND BALANCES:				
Unreserved:				
Special revenue funds			\$548,135	\$ (11,831)
Capital projects	\$ (49,270)			
Permanent fund				
TOTAL CASH BASIS FUND BALANCES	<u>\$ (49,270)</u>	<u>\$</u>	<u>\$548,135</u>	<u>\$ (11,831)</u>

Special Revenue				Permanent	Total
Urban Renewal TIF	Revolving Loan	Library Memorial	Parks & Recreation Capital Improvements	Oak Hill Perpetual Care	
					\$ 26,998
\$202,182					202,182
					564,718
	\$ 2,772	\$ 363	\$ 2,526	\$ 5,078	28,571
			4,984		4,984
	9,400	16,746	3,096	3,370	51,082
<u>202,182</u>	<u>12,172</u>	<u>22,093</u>	<u>5,622</u>	<u>8,448</u>	<u>878,535</u>
					87,455
		25,771	2,040	3,089	127,537
	10,000				12,081
					1,285
					<u>139,788</u>
	<u>10,000</u>	<u>25,771</u>	<u>2,040</u>	<u>3,089</u>	<u>368,146</u>
<u>202,182</u>	<u>2,172</u>	<u>(3,678)</u>	<u>3,582</u>	<u>5,359</u>	<u>510,389</u>
			2,480		64,478
<u>(285,733)</u>					<u>(618,238)</u>
<u>(285,733)</u>			<u>2,480</u>		<u>(616,760)</u>
(83,551)	2,172	(3,678)	6,062	5,359	(106,371)
<u>108,013</u>	<u>72,966</u>	<u>11,449</u>	<u>68,982</u>	<u>141,627</u>	<u>922,806</u>
<u>\$ 24,462</u>	<u>\$ 75,138</u>	<u>\$ 7,771</u>	<u>\$ 75,044</u>	<u>\$146,986</u>	<u>\$ 816,435</u>
\$ 24,462	\$75,138	\$ 7,771	\$ 75,044		\$ 718,719
					(49,270)
				<u>\$146,986</u>	<u>146,986</u>
<u>\$ 24,462</u>	<u>\$ 75,138</u>	<u>\$ 7,771</u>	<u>\$ 75,044</u>	<u>\$146,986</u>	<u>\$ 816,435</u>

CITY OF CHEROKEE
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Enterprise Funds				
	Landfill	Solid Waste	Storm Water	Airport	Total
OPERATING RECEIPTS:					
Charges for service	\$142,096	\$210,942	\$ 80,717		\$433,755
Use of money and property			6,761		6,761
Miscellaneous				\$ 100	100
TOTAL OPERATING RECEIPTS	<u>142,096</u>	<u>210,942</u>	<u>87,478</u>	<u>100</u>	<u>440,616</u>
OPERATING DISBURSEMENTS:					
Business type activities	<u>165,298</u>	<u>210,773</u>	<u>266,454</u>		<u>642,525</u>
TOTAL OPERATING DISBURSEMENTS	<u>165,298</u>	<u>210,773</u>	<u>266,454</u>		<u>642,525</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	(23,202)	169	(178,976)	100	(201,909)
NONOPERATING RECEIPTS:					
Transfers in				<u>18,382</u>	<u>18,382</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(23,202)	169	(178,976)	18,482	(183,527)
CASH BALANCES - BEGINNING OF YEAR	<u>(7,036)</u>	<u>(3,788)</u>	<u>237,065</u>	<u>(18,482)</u>	<u>207,759</u>
CASH BALANCES - END OF YEAR	<u>\$ (30,238)</u>	<u>\$ (3,619)</u>	<u>\$ 58,089</u>	<u>\$</u>	<u>\$ 24,232</u>
CASH BASIS FUND BALANCES:					
Unreserved	<u>\$ (30,238)</u>	<u>\$ (3,619)</u>	<u>\$ 58,089</u>	<u>\$</u>	<u>\$ 24,232</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ (30,238)</u>	<u>\$ (3,619)</u>	<u>\$ 58,089</u>	<u>\$</u>	<u>\$ 24,232</u>

CITY OF CHEROKEE
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2008

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount of Original Issue</u>	<u>Balance Beginning of Year</u>
General Obligation Notes:				
Sioux Valley Memorial Hospital Wellness Center	11-01-00	5.40 - 6.25%	\$1,000,000	\$ 690,000
Essential corporate purpose (miscellaneous projects)	7-1-02	2.50 - 4.70%	1,430,000	985,000
1993 refunding 2004 A	4-15-04	1.25 - 3.35%	1,785,000	1,240,000
Essential corporate purpose 2004 B	6-15-04	2.40 - 4.50%	3,200,000	2,620,000
Essential corporate purpose (aquatic center)	8-15-06	4.10 - 4.60%	400,000	400,000
Essential corporate purpose (street sweeper)	11-01-06	4.75%	150,000	<u>150,000</u>
TOTAL				<u>\$6,085,000</u>
Revenue Notes:				
Sewer	9-30-99	4.23%	\$2,170,000	\$1,695,000
Water	4-01-02	3.25 - 5.00%	1,330,000	555,000
Sewer	6-19-02	3.00%	3,390,000	2,799,000
Aquatic center	2-02-07	5.00%	1,650,000	<u>1,650,000</u>
TOTAL				<u>\$6,699,000</u>

Schedule 3

<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
	\$ (60,000)	\$ 630,000	\$ 39,345	
	(85,000)	900,000	44,864	
	(295,000)	945,000	35,353	
	(305,000)	2,315,000	103,447	
	(35,000)	365,000	17,793	
<u> </u>	<u>(23,000)</u>	<u>127,000</u>	<u>7,125</u>	<u> </u>
<u>\$</u>	<u>\$(803,000)</u>	<u>\$5,282,000</u>	<u>\$247,927</u>	<u>\$</u>
	\$ (91,000)	\$1,604,000	\$ 72,545	
	(175,000)	380,000	27,528	
	(139,000)	2,660,000	90,969	
<u> </u>	<u>(150,000)</u>	<u>1,500,000</u>	<u>82,500</u>	<u> </u>
<u>\$</u>	<u>\$(555,000)</u>	<u>\$6,144,000</u>	<u>\$273,542</u>	<u>\$</u>

CITY OF CHEROKEE
NOTE MATURITIES
JUNE 30, 2008

General Obligation Notes

<u>Miscellaneous Projects</u>						
<u>Year Ending June 30,</u>	<u>Issued 11-01-2000</u>		<u>Issued 7-1-2002</u>		<u>Issued 4-15-2004</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2009	5.90%	\$ 65,000	4.35%	\$ 210,000	2.55%	\$ 180,000
2010	5.90%	70,000	4.50%	220,000	2.75%	185,000
2011	5.40%	70,000	4.60%	230,000	3.00%	185,000
2012	5.45%	75,000	4.70%	240,000	3.20%	195,000
2013	5.50%	80,000			3.35%	200,000
2014	5.55%	85,000				
2015	5.60%	90,000				
2016	5.70%	95,000				
2017						
TOTAL		<u>\$ 630,000</u>		<u>\$ 900,000</u>		<u>\$ 945,000</u>

<u>Revenue Notes</u>						
<u>Year Ending June 30,</u>	<u>Sewer Issued 9-30-99</u>		<u>Water Issued 4-1-02</u>		<u>Sewer Issued 6-19-02</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2009	4.23%	\$ 95,000	4.90%	\$ 185,000	3.00%	\$ 143,000
2010	4.23%	99,000	5.00%	195,000	3.00%	147,000
2011	4.23%	103,000			3.00%	152,000
2012	4.23%	107,000			3.00%	156,000
2013	4.23%	112,000			3.00%	161,000
2014	4.23%	118,000			3.00%	166,000
2015	4.23%	122,000			3.00%	171,000
2016	4.23%	127,000			3.00%	176,000
2017	4.23%	132,000			3.00%	181,000
2018	4.23%	138,000			3.00%	187,000
2019	4.23%	144,000			3.00%	192,000
2020	4.23%	150,000			3.00%	198,000
2021	4.23%	157,000			3.00%	204,000
2022					3.00%	210,000
2023					3.00%	216,000
TOTAL		<u>\$1,604,000</u>		<u>\$ 380,000</u>		<u>\$2,660,000</u>

Miscellaneous Projects						
Issued 6-15-2004		Issued 8-15-2006		Issued 11-01-2006		
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
3.45%	\$ 315,000	4.15%	\$ 35,000	4.75%	\$ 28,000	\$ 833,000
3.65%	300,000	4.20%	35,000	4.75%	31,000	841,000
3.85%	310,000	4.25%	35,000	4.75%	33,000	863,000
4.05%	325,000	4.30%	40,000	4.75%	35,000	910,000
4.20%	340,000	4.35%	40,000			660,000
4.35%	355,000	4.40%	40,000			480,000
4.50%	370,000	4.45%	45,000			505,000
		4.50%	45,000			140,000
		4.60%	50,000			50,000
	<u>\$2,315,000</u>		<u>\$ 365,000</u>		<u>\$ 127,000</u>	<u>\$5,282,000</u>

Aquatic Issued 2-02-2007

Interest Rates	Amount	Total
5.00%	\$ 200,000	\$ 623,000
5.00%	300,000	741,000
5.00%	500,000	755,000
5.00%	500,000	763,000
		273,000
		284,000
		293,000
		303,000
		313,000
		325,000
		336,000
		348,000
		361,000
		210,000
		216,000
	<u>\$1,500,000</u>	<u>\$6,144,000</u>

CITY OF CHEROKEE
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST FOUR YEARS

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
RECEIPTS:				
Property and other city tax	2,206,233	\$2,135,270	\$2,115,269	\$1,980,336
Tax increment financing	202,182	205,308	170,779	221,297
Licenses and permits	28,364	25,777	27,469	25,519
Use of money and property	132,896	163,893	193,391	133,901
Intergovernmental	567,671	887,099	487,336	528,684
Charges for service	171,005	101,431	59,620	69,978
Special assessments	36,770	25,830	52,077	225,640
Miscellaneous	<u>679,773</u>	<u>1,358,900</u>	<u>567,434</u>	<u>370,588</u>
TOTAL REVENUES	<u>\$4,024,894</u>	<u>\$4,903,508</u>	<u>\$3,673,375</u>	<u>\$3,555,943</u>
DISBURSEMENTS:				
Public safety	\$ 870,531	\$ 922,236	\$ 935,557	\$ 842,842
Public works	761,497	738,554	486,313	629,256
Culture and recreation	1,345,196	680,192	909,802	686,449
Community and economic development .	12,361	635	1,777	6,944
General government	230,641	303,901	295,914	285,331
Debt service	1,283,427	983,395	1,192,475	2,161,195
Capital projects	<u>139,788</u>	<u>3,032,922</u>	<u>211,407</u>	<u>169,650</u>
TOTAL EXPENDITURES	<u>\$4,643,441</u>	<u>\$6,661,835</u>	<u>\$4,033,245</u>	<u>\$4,781,667</u>

WINTHER, STAVE & Co., LLP
Certified Public Accountants

1316 West 18th Street
P.O. Box 175
Spencer, Iowa 51301-0175
Phone 712-262-3117
FAX 712-262-3159

1004 21st Street #4
P.O. Box 187
Milford, Iowa 51351
Phone 712-338-2488
FAX 712-338-2510

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of the City Council
City of Cherokee
Cherokee, IA 51012

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cherokee, Iowa as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents, and have issued our report thereon dated February 9, 2009. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Cherokee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies including a deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to

initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-08 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cherokee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Cherokee, and other parties to whom the City of Cherokee may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Cherokee during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Wintner, Steve" followed by a stylized set of initials "G 729".

February 9, 2009

CITY OF CHEROKEE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Financial Statements

Significant Deficiency:

I-A-08 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one individual has custody of receipts, prepares bank deposits, picks up bank statements, and performs posting of cash receipts to the cash receipts journal. We also noted this individual is the only authorized signer on the City's primary financial institution account.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should consider having another official or employee added as an authorized signer on the primary financial institution account.

Response - We will consider our control procedures and whether to add another authorized signer to the primary financial institution account.

Conclusion - Response accepted.

I-B-08 Reporting Financial Data - Reporting financial data reliably on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles, requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. As is a common situation in small entities, management presently does not have the qualifications and training to completely fulfill these responsibilities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses would improve management's ability to prepare and take complete responsibility for reliable cash basis financial statements.

Response - Management will consider steps which could be taken to improve the ability to prepare and take complete responsibility for reliable cash basis financial statements.

Conclusion - Response accepted.

Instances of Non-Compliance:

No matters were noted.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Statutory Reporting

- II-A-08 Certified Budget - Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the following functions: public safety, community and economic development, and debt service. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- II-B-08 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-08 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-08 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Duane Mummert, Park Superintendent	Tooling expense	\$ 1,000

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Park Superintendent does not appear to represent conflicts of interest since the total transaction was less than \$1,500 during the fiscal year.

- II-E-08 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-08 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Statutory Reporting - Continued

II-G-08 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-08 Revenue Notes - The City has complied with various water and sewer revenue note resolutions.

II-I-08 Financial Condition - The following funds had a deficit balance at June 30, 2008:

Capital Projects
Special Revenue - Hotel/Motel
Proprietary - Landfill
 - Solid Waste

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position.

Response -

Capital Projects	Reduce spending
Special Revenue - Hotel/Motel	Reduce spending
Proprietary - Landfill	Reduce spending
- Solid Waste	Reduce spending

Conclusion - Response accepted.